



## **Annual National Report 2009**

### **Pensions, Health and Long-term Care**

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## 1 Executive Summary

The Cypriot economy exhibited comparatively high growth rates in the recent past (4.4% in 2007). Growth decelerated to 3.5% in the last quarter of 2008 and is forecasted to further slow down in 2009. The country was already on track to meet the Lisbon strategy targets for employment in 2007. It also exceeded the employment rate target for the age group 55-64 (55% in 2008). Unemployment was low until recently (nearly 4% in late 2008). It has been rising over the last few months though, and forecasts for the future vary according to economic predictions. Under the impact of the economic crisis, measures taken so far (2009 budget and specific policy packages) aim at coordinating economic development, social cohesion and macroeconomic stability. Strong concern is expressed in public debate about the crisis effect on social wellbeing among the rising number of long-term unemployed and, particularly, among low-income pensioners (and other social assistance recipients) for whom poverty rates have been persistently high.

Sustainability of pensions has been an issue of public concern over the last few years. Throughout 2008 public debate intensified in respect of a reform bill placed before Parliament by the government. Pressing demographic trends, to be aggravated over the next decades, made an overhaul of social insurance necessary. After a protracted debate consensus among the relevant actors was achieved on some parametric changes, while the structure of the system was left intact. The government's pledge to boost the General Social Insurance Scheme's reserves (and soon draft a bill proposal for the reorganisation of their management) significantly contributed to a successful negotiations result. The reform bill was approved by Parliament in March 2009. New legislation introduces stricter rules for early retirement, increases revenue through a phased rise of contributions for all those insured under the GSIS and, thus, extends system sustainability for the coming decades. Notably, significant inequalities in coverage by the voluntary provident fund schemes between public and private sector employees were not addressed by this law. Existing regulations do not ensure pension income adequacy for the latter, in contrast to supplementary pension coverage for public employees. Overall, adequacy of pensions remains a key challenge. The recently approved measure for a means-tested monthly benefit to low-income pensioners is a step forward towards the target of considerably reducing poverty among the elderly by 2011.

As to health care policy, little progress has been made over the last year in respect of the introduction of the GHS (General Health System) plan. Due to the long delay in implementing the plan, an amendment scheme was deemed necessary. A draft bill prepared by the government has been debated in the Parliamentary Health Committee since May 2008. The focus is on the rising implementation cost, introduction of co-payments, extent of dental care coverage and other related issues. Considerable preparatory work has also been carried out (e.g. organisational planning for primary and secondary health care, elaboration of costing methods and quality assessment criteria); however, major changes in the organisational and management structures of public health units are still pending.

Long term care is a less developed policy area, though demographic pressures will intensify the need for it in the near future. The decentralisation of social welfare services that is under way will improve access. However, social welfare services are understaffed and the carer/client ratio has deteriorated. Key challenges concern the systematic assessment of future needs and required resources, better targeting of

provisions to those in need and coordination between different (public, private and voluntary) providers.

## **2 Current Status, Reforms as well as the Political and Scientific Discourse during the Previous Year**

### **2.1 Pensions**

#### **2.1.1 Overview of the system's characteristics and reforms**

There are two main social insurance systems in Cyprus. They are both compulsory (public) first pillar schemes. The first (GSIS, General Social Insurance Scheme) covers all private sector workers (including the self-employed), while the second (Government Employees Pension Scheme) covers civil servants and employees in the wider public sector. The GSIS was established in 1963 as a flat-rate contributions and benefits scheme but was reformed in 1980 with the introduction of an earnings-related scheme.<sup>1</sup> GSIS pensions comprise a basic and a complementary part, the former is based on insured earnings before the 1980 reform, whereas the supplementary part is based on earnings since October 1980. Basic pensions are annually indexed to the rate of increase of insurable earnings, while supplementary pensions increase in accordance with the index of the cost of living. Pension increases take place each January, as well as each July (if the cost of living index is higher than 1%).

Civil servants, members of the education system, the police and the armed forces are insured under the Government Employees Pension Scheme that provides retirement and survivors pensions and is tax-financed on a pay-as-you-go basis. Pensions are indexed to the cost of living indicator on a six-month basis. Public (and semi-public sector) employees are also entitled to the basic pension of the social insurance fund. Furthermore, government employees benefit from mandatory supplementary pension schemes that are tax-financed too and provide comparatively higher replacement rates than occupational (provident) funds of private sector workers.<sup>2</sup>

Old-aged people (65 years and over), who do not satisfy minimum requirements for a pension under the GSIS or any other scheme, are entitled to a non-means-tested social pension<sup>3</sup> (provided they fulfil prescribed residence conditions). The social pension ensures universality in pension coverage (about 95% of social pension beneficiaries are women). The rate of the social pension is equivalent to 81% of the full basic social insurance pension; and as is the case with the latter, it is automatically indexed to earnings.

The second pillar consists of a number of provident funds established on the basis of collective agreements for various groups of private sector employees.<sup>4</sup> Currently, about 35% of private sector employees are covered by voluntary provident funds that provide lump sum payments at retirement (as well as for invalidity, termination of employment, unemployment and death). They operate on a funded basis and significantly vary in respect of the level of benefits they provide. The transposition of the Directive

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<sup>1</sup> The 1980 reform also ensured uniformity in terms of qualifying conditions and pension rights accumulation for all private sector workers, either in standard or non-standard employment (including the self-employed).

<sup>2</sup> Some other categories of public employees, such as employees of public utility corporations, local government and of other public law organisations are covered by separate "occupational" schemes, which, however, operate under the same terms and conditions as for civil servants.

<sup>3</sup> The social pension was introduced in 1995.

<sup>4</sup> Legislation for the establishment of provident funds came into force in 1982.

2003/41/EC into law, in November 2006, aimed to create a more unified regulatory framework and promote future reform of voluntary provident funds, so that provisions could be converted from lump-sum benefits into lifetime additional pension income. However, for such a change to have a beneficial effect on pensioners' incomes, a long time span for the accumulation of rights is required.

In July 2008, the basic and supplementary parts of GSIS pensions increased by 2.34%, while in January 2009 a further increase by 2.15% and 2.16%, respectively, took place (also from January 2009 the Social Pension amounts to EUR 300).

Persons with low pensions are entitled to a Special Allowance Scheme. The benefit is provided to low-income pensioners without any test of other sources of income. At Easter 2008 and 2009, all GSIS pensioners – as well as the social pension recipients – received a one-off bonus (at Easter 2009, this amounted to EUR 300 for those with a pension from EUR 300 and over; for those receiving a lower pension, including social pension recipients, the bonus was equal to the amount of their pension).<sup>5</sup>

Additional social welfare provisions to pensioners include: the “Social Card” that gives free access to bus transport and other facilities (every person 63 years and over – and invalidity pensioners independently of age – are entitled to it); a fuel allowance and other occasional one-off cash benefits, which are provided on a means-tested basis.

Crucial indicators of the demographic problem and the strains on the PAYG system in the following decades are the dramatic increase of the age-related dependency ratio (65+/15-64) from 17.5 in 2004 to 43.5 in 2050; the declining rate of contributors to pensioners from 3.4 in 2007 to 1.2 in 2060; and the ensuing remarkable increase of the cost of GSIS pensions calculated as percentage of insurable earnings in the above time span (if no corrective measures were taken). Recent actuarial studies in Cyprus show that the cost of GSIS pensions, which stood at 4.5% of GDP in 2004, will increase to 6.5% in 2015, 9.7% in 2030 and 12.6% in 2050 (ILO, 2005).<sup>6</sup> Equally significant will be the increase of the pensions cost for the public sector retirees: this is estimated to rise to 3.5% in 2030 and 4.8% in 2050. When Cyprus planned to set up a pensions reserve in 1980, it was projected that within fifty years (1980-2030) an actuarial equilibrium would be achieved where the reserve would equal to 4 – 4.5 times the annual pensions expenditure. However, recent calculations (under the status quo), clearly indicate that this equilibrium will be broken around 2020 and the reserve will be depleted between 2036 and 2040.

In order to deal with these serious financial strains and enhance the future viability of the GSIS, a new bill was placed before parliament by the government formed after the presidential elections of February 2008. After a protracted public debate and exhaustive negotiations with the social partners and both the political coalition partners and the party in opposition (DHSY), the government managed to counter serious reservations and achieve a broad consensus so as to finally pass the bill through the legislature in March 2009.<sup>7</sup> The reform under way does not touch upon the overall structure of social insurance. It rather changes some parametric aspects of the system with the aim to improve its financial sustainability up to 2050. The pledge by the government to put in EUR 200 million every year to GSIS and for the next five years, in order to repay part of its debt to the Fund and contribute to the rise of its reserves, played an important role in achieving wide support for the reform plan. Equally important has been the

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<sup>5</sup> A bonus is also provided at Christmas.

<sup>6</sup> See also Republic of Cyprus 2007 (p. 108) and European Commission 2006.

<sup>7</sup> However, consultations on a pension reform plan, at the level of the Social Insurance Board, the Labour Advisory Board and other relevant bodies (in parallel with a public dialogue), started about three years ago (under the previous government) and continued until the approval of the bill.

government's pledge to review reforms in a year's time and to soon draft a bill for the management of the GSIS' reserves. To note that according to the Minister of Finance the GSIS has almost no reserves, as the EUR 80 million estimated for the current year will arise from the 1.3% increase in contributions to be effected from April 2009 on the basis of the new law).<sup>8</sup>

### 2.1.1.1 Main reform measures

Recent developments stem primarily from budgetary concerns in respect of ageing. They significantly tackle the issue of balancing contributions and benefits with the aim to achieve a fairer distribution of the financial burden among generations. They support longer working lives by increasing the minimum contribution period for entitlement to old-age pensions and make provisions for a higher rate of return on GSIS reserves.

On the basis of a broad social consensus, the government opted for a reform that will primarily increase revenues through gradual increase of contributions - by 1.3<sup>9</sup> percentage points every five years (and in seven instalments, starting from April 2009) until the contribution rate (currently at 16.6%) reaches 25.7% in 2039. Contribution rates of self-employed will also be increased by 9.1% until 2039. The option of cutting down expenditure by increasing retirement age and/or indexing GSIS basic pensions to the consumer price index instead of the index of insurable earnings (that has been in force since 1980) was deemed inadequate. It met the opposition of social partners and, most importantly, it would have negative effects on the adequacy of pensions, given the persistently high poverty rate among people 65 years and over.

Therefore, on the expenditure side, the only option incorporated into recent legislation concerns a significant extension of the qualifying period for minimum pensions (from 3 to 10 years of paid contributions, to which 5 more years of credited contributions can be added, instead of 9 until recently, thus increasing the total period from 12 to 15 years). Also, the law abolished the right of public sector workers to be granted unemployment benefit for six months after leaving the service (indeed an unfair provision that absorbed a significant amount of the GSIS resources).<sup>10</sup>

Other developments include the restructuring of occupational (insurance) categories of the self-employed and an upward adjustment of notional insurable incomes for these categories (resulting in an average increase of 17%, applied from 2007 onwards), so as to bring notional incomes of the self-employed closer to their actual ones. Relevant legislation passed in 2006 also stipulates regular monitoring procedures regarding the sustainability of pension coverage for the self-employed (annual reports are submitted to the Social Insurance Supervising Authority). Furthermore, with the Law on "the Establishment, Registration, Operation and Supervision of the Occupational Retirement Benefits Funds" (enacted in November 2006), a new regulatory framework for all occupational pension schemes and provident funds (that provide lump sum benefits) with at least 100 members was introduced in line with Directive 2003/41/EC.<sup>11</sup>

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<sup>8</sup> See Newspaper "Simerini", 8 March 2009, accessed at <http://www.sigmalive.com/>.

<sup>9</sup> The increase will be 0.5% for the employer, 0.5% for the employee and 0.3% for the state.

<sup>10</sup> As stressed in the Newspaper "Cyprus Mail" (9 March 2009, accessed at <http://www.cyprus-mail.com/>), "the amount plundered in this way is in excess of EUR 600 million – without taking interest into account [...] All the governments and political parties are to blame for allowing this to go on for decades". The measure will be in force from 2010.

<sup>11</sup> Provident funds with less than 100 members still operate under the 1982 Provident Funds Law. Thus, considerable differences in terms of regulation and extent of coverage prevail between occupational funds (some provident funds are considered more privileged, such as the provident funds of bank employees as well as those of construction workers). Inequalities create obstacles to reform. The

Furthermore, upon recommendation by international institutions (World Bank and IMF), the interest rate for the GSIS assets placed in government securities is going to increase (to note here that legal provisions require that more than 98% of the GSIS assets are placed in non-marketable government securities). A plan on the efficient management of the Fund's reserves was prepared by the government last November and is still under discussion with the social partners. As stressed earlier, the government pledged to pay back its debts to the Fund and according to the decision taken a reserve of EUR 1 billion is expected to be formed by 2013. An independent organisation in charge of the investment policy and management of reserves will be established. This organisation will be supervised by a governing board chaired by the Minister for Finance (and vice-chaired by the Minister for Labour); members of this board will be representatives of the Cyprus Chamber of Commerce and Industry (KEBE), the Cyprus Employers and Industrialists Federation (OEB), the Cyprus Workers' Confederation, the Pancyprian Federation of Labour (PEO) and the Democratic Labour Federation of Cyprus (DEOK), the Director of the GSIS and a representative of the Ministry of Finance. The Government also suggests the establishment of an Investment Council in charge of implementing the investment policies approved by the above board.

Regarding active ageing, the extension of the total qualifying (paid and credited) contributions period for minimum pension according to the recently approved law, as well as the increase of retirement age of civil servants from 60 to 63 years<sup>12</sup>, which gradually took place from 2005 to 2008, are the main recent measures. A further increase of the legal normal retirement age to 65 for the whole working population (so as to bring it in line with the 65 age limit for old-age pension under the GSIS) was left out of the reform package. It was not considered particularly necessary, in actuarial terms, at present, given the difficulties in achieving a broad social consensus.

The recently introduced stricter rules on entitlements to minimum pensions intend to encourage employment. Yet in the short term, they may have a negative impact on women, given the higher frequency of interrupted or very short employment careers, particularly among older women failing to meet new rules. In this case income support will be secured by the provision of the non-contributory social pension (close to the level of the GSIS minimum basic pension) and additional social assistance.

The reform law is very much in line with the demographic challenges faced by Cyprus. Yet, critical issues such as the large gaps in pension benefits between public and private employees and the persistently high poverty risk among the elderly have not been adequately addressed so far. Thus, enhancing the adequacy of pensions remains a major challenge for the years ahead.

#### **2.1.1.2 Effective retirement age, replacement rates, increase of pensions and social assistance benefits**

The average withdrawal age from the labour market stands at 63; this coincides with the legal early retirement age (for both men and women). Replacement rates considerably differ between the public and private sector. For a public employee with earnings equal to the national average earnings of a male worker, the total pension income (including

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government is considering a reform plan that would unify legislation for all provident funds in the future.

<sup>12</sup> Yet this measure applies to only 50% of government employees (including employees of the majority of the local government authorities and semi-public organisations, but excluding the members of the Educational Service, the Police and the Armed Forces, for whom the compulsory retirement age still ranges between 55 and 60).

occupational pension and a lump-sum benefit payment) amounted to about 80% of gross earnings in 2006; the corresponding rate for a private sector pensioner (excluding the special allowance) was 45%. There is also a significant gender gap, as it is mostly women who receive the minimum pension (as well as the social pension), and for persons on minimum pension (including the special allowance) the replacement rate for gross pension income amounted to 19% of male average earnings in 2006.

To note that under the GSIS retirement age stands at 65. However, insured persons who have completed a minimum insurance period (28.5 years, or 70% of total insurable working life, this is going to gradually increase to 33.25 years) can retire at the age of 63 without any actuarial decrease of their pension. There are no restrictions on work for pensioners, and according to recent data, about 70% of pensioners between the age of 63 and 65 continue working. Contributions paid by those pensioners increase the rate of their pension at the age of 65.<sup>13</sup> Often, in the case of persons with low earnings, retirement after having covered only about two thirds of total insurable working life may imply a very low pension (even below the minimum pension). This may lead to the paradoxical phenomenon where “early retirees” of this category have their pension raised to the level of minimum pension, to which the special allowance is also added, while, at the same time, they may continue to have earnings from employment, too.

According to the Ministry of Labour and Social Insurance, the up to now rather lax requirements for establishing a pension right (10 years, of which only 3 years of contributions), in combination with the fact that the minimum pension for persons mostly covered under the basic insurance part is the same if they work for 10 or 35 years, contribute to early retirement. These conditions also favour contributions evasion by low-wage persons and the self-employed. New legislation attempts to face these problems.

## **2.1.2 Overview of debates/political discourse**

How to address the demographic challenge and the burden on public finances that this is expected to exert in the years to come has been a central concern expressed in various reports and actuarial (and other) studies since the early 2000s (Republic of Cyprus, 2005; European Commission, 2007; Ministry of Labour and Social Insurance, 2006 and 2008; International Labour Office, 2003; Komodromou et al., 2004; Catalan. et al., 2008).<sup>14</sup>

As stressed above, over the last year there has been an exhaustive debate among social partners and political parties on the pension reform placed before parliament by the government. Certainly, this is an ongoing debate given the fact that major issues concerning the viability, adequacy and modernisation of the pension system still need to be tackled.

A major area of public debate concerns the future of the GSIS reserves. How to address a long-standing problem, that has to do with the shrinking of the Fund’s reserves in recent years, is a main issue of concern to all relevant parties. Furthermore, the need to improve effective management of the Fund’s assets has been a central demand by the social partners. Besides, in the parliamentary discussions, the initial reservations expressed by some trade union representatives in respect of the pension reform plan

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<sup>13</sup> After the age of 65, no contributions are charged to working pensioners and, thus, employment after that age does not have any further positive effects on pensions.

<sup>14</sup> Available studies converge on the finding that, if no reform (either parametric or structural) took place, Cyprus would face a serious problem in financing pensions from 2020 onwards.



stemmed from their concern about the state's debts to the Fund and the need for effective management. The pledge by the government to consider an instalments plan to decrease its debt and to also soon put a plan for the Fund's investment policy management up for discussion facilitated consent by the trade unions.

Targeting support benefits to pensioners at risk of poverty is also a recurrent issue in public debate. As there are no restrictions for pensioners to continue working, receiving a minimum pension is not always an indication of inadequate economic means, given the fact that a number of pensioners receive additional income from work. Recently, the party in opposition strongly criticised the government for not targeting the one-off Easter bonus provided to low-income pensioners and demanded the introduction of means-testing criteria.

### **2.1.3 Critical assessment of reforms, discussions and research carried out**

#### **2.1.3.1 System modernisation, sustainability**

Significant steps made in improving social insurance administration and facilitating information access by stakeholders include: provision of electronic information (and updated guides) on citizens' pension rights, and internet use for the payment of contributions by employers and the self-employed. Furthermore an electronic site of Social Insurance Administration will soon enable insured persons to get information about accumulated rights and pension entitlements. In this vein, a bill "for the consolidation and simplification of the Social Insurance Legislation" is expected to be put before parliament in the second half of 2009. In addition, controls for undeclared work and contributions evasion by the Inspection Service have been intensified.

A process of information and consultation with the social partners regarding the results of the triennial actuarial studies for GSIS aims to improve transparency and informed decision making by the relevant stakeholders in social insurance.

Furthermore, even though legal developments are on track to effectively modernise the organisation, management and supervision of second pillar schemes, any significant reform of the existing voluntary provident funds (so as to progressively offer a wide range of second pillar coverage) requires a broad social consensus, which does not seem to be forthcoming.

As is apparent, recent reforms will increase revenue and improve and extend system sustainability for a longer period than under the pre-reform conditions. Moreover, the social insurance system does not exhibit significant gender differences, and provides for fairly equal treatment in respect of standard and non-standard employment, thus promoting employment flexibility. On the other hand, the voluntary provident fund schemes do not seem to favourably contribute to flexibility, given that often employment change may lead to the cashing-in of lump-sum benefits and termination of coverage. Most importantly, existing regulations for voluntary provident funds do not ensure pension income adequacy for private sector employees, in contrast to supplementary pension coverage for public employees.

#### **2.1.3.2 Adequacy of pensions - Inequality**

As stressed above, adequacy of pension incomes for a large number of retirees receiving minimum pensions because of low insurance record (or the Social Pension, because of no entitlement to GSIS or other pension) has persistently been a major problem. This is accounted for by the fact that the earnings-related schemes introduced in 1980 as an

additional element to the basic (flat-rate) pension characterising the pre-1980 period have not matured yet. Consequently, a number of retirees either depend entirely on the basic pension or have a low insurance record under the earnings-related scheme. This is also compounded by the up to now rather lax requirements for establishing pension rights.

The poverty rate among people aged 65 and over has been persistently high (a little over 50% since the early 2000s)<sup>15</sup>. Even higher is the poverty rate for persons aged 75 years (from 63% in 2005 it went up to 67% in 2007). The poverty rate for elderly women is higher than that for men and the gap has slightly widened between 2005 and 2007.<sup>16</sup>

In the medium term pensioners' incomes could be improved through a more effectively targeted provision of the special allowance to pensioners with low incomes. This can be achieved by changing the criteria of entitlement rights: instead of taking into account a retiree's individual pension, as is currently the case, means-testing would refer to the total household income. A study was commissioned by the Government in order to examine the effects of minimum pension benefits and social assistance measures on alleviating poverty with the aim to improve targeting and increase effectiveness.

Table 1: At risk of poverty (cut-off point 60% of median equivalised income after social transfers)

	2005 <sup>a</sup>			2007		
	Total <sup>b, c</sup>	Men <sup>b, c</sup>	Women <sup>b, c</sup>	Total <sup>b, c</sup>	Men <sup>b, c</sup>	Women <sup>b, c</sup>
<b>EU-15</b>	16 (20)	15 (17)	17 (22)	17 (21) <sup>d</sup>	15 (18) <sup>d</sup>	17 (23) <sup>d</sup>
<b>EU-27</b>	16 (19)	15 (16)	17 (21)	16 (19) <sup>e</sup>	15 (16) <sup>e</sup>	17 (22) <sup>e</sup>
<b>Cyprus</b>	16 (51)	15 (47)	18 (53)	16 (51)	14 (47)	17 (54)

Source: <http://epp.eurostat.ec.europa.eu>

a break in series / b total number / c in parenthesis 65 years and over / d provisional estimate by Eurostat / e provisional data

On the basis of this study a first step in this direction was taken recently. In April 2009 a "Scheme for the Support of Low-Income Pensioners" was approved by the Council of Ministers to be implemented from October 2009. This is a means-tested benefit scheme that will provide a top-up monthly benefit to low-income pensions, ranging from a 9% to 16% increase of pensions (see Table 2 for the low-pension brackets and the corresponding benefits). Eligible pensioners will apply from May 2009, but the benefit provision will start some months later in order for the Ministry to take the necessary administrative steps for the implementation of the scheme. It is estimated that 53,400 households (with 71,207 persons) will benefit from this measure, and the total cost will be around EUR 56.9 million during the first year of its implementation.

<sup>15</sup> This is a very high rate compared to the national poverty rate that stood at 16% in 2007 (referring to the population that live in households with an income below 60% of the equivalised median household income after social transfers).

<sup>16</sup> The total of the GSIS minimum pension plus the corresponding special allowance slightly surpass the minimum subsistence level, while the total pension income of persons entitled to social pension is even lower (it amounts to 86% of the public assistance allowance for basic needs).

Table 2: Income brackets of eligible pensioners and amount of benefit

	<b>One-person households</b>		<b>Two-person households</b>
Income brackets (annual income, EUR )	<i>Percent of income increase</i>	Income brackets (annual income, EUR )	<i>Percent of income increase</i>
Up to 5,199	16%	Up to 7,798	16%
5,200-6,239	14%	7,799-9,358	14%
6,240-7,278	12%	9,359-10,918	12%
7,279-8,318	11%	10,919-12,477	11%
8,319-9,358	10%	12,478-14,037	10%
9,359-10,398	9%	14,038-15,597	9%

Source: <http://www.moi.gov.cy/moi/pio/pio.nsf/All/061DDB91C2ED18B8C225759800515CB0?OpenDocument&highlight=συντάξεις>

Another major inequality concerns the supplementary (occupational) pension benefits of public and private employees. Public employees enjoy much better coverage with higher replacement rates than private sector employees.<sup>17</sup> What is more, termination of employment in the private sector (due to firing or any other reason) often leads beneficiaries to cash in lump-sum benefits before they have built up mature rights. Obviously, reform of voluntary pension funds in order to equalise the regulatory framework and provision conditions between the private and public sector remains a major challenge.

As to the target of reducing poverty for the population aged 65 years and over from 52% in 2005 to 40% by 2011, set by the government, an overhaul of social assistance measures is required so as to eliminate distortions and channel resources to those most in need.

## 2.2 Health

### 2.2.1 Overview of the system's characteristics and reforms

Cyprus lacks a universal health care system. The need for a health care reform has been an issue of ongoing debate in the country, and since 1966 successive governments have at times invited experts to undertake research projects and develop a reform plan. However for some decades there has been a stalemate in this policy area. In 2001, a first step was taken with the enactment of a law for introducing the General Health System (GHS). This law aimed at addressing major deficiencies and inequalities in health care. Initially, the aim was to put the GHS in operation by the mid 2000s. Yet the target was soon dropped as unrealistic. Successive postponements of the GHS's launch date followed. Once more, recently, the target of putting the GHS in operation by 2009 was put off until the second half of 2011 amid concerns about organisational and financial issues.

Governmental policy papers and EU reports (e.g. NSR 2006-2008 & 2008-2010; 2007 Joint Report) repeatedly identified as the main challenge in the health care field in Cyprus the implementation of the legislated reform, but no substantial developments

<sup>17</sup> Supplementary (occupational) pensions of public employees are not based on contributions but are tax-financed; and accruing benefits include both "guaranteed" lump sums and lifetime earnings (the roots of the privileged social insurance regime for government employees in Cyprus lie in the colonial era, when the first measures of social insurance were introduced around the mid-1950s under the British rule and at a time when the majority of the public administration personnel where British).

have been made so far. As repeatedly stressed in the available literature (Golna et al., 2004; Antoniadou, 2005), the organisation and management of the health care system in the country is obsolete and deficient, and proliferation of private health facilities without effective controls (and coordination with public health care) mechanisms lead to duplication, waste of resources and poor quality of services. Total health expenditure is comparatively low in Cyprus (6.3% of GDP in 2006; this is one of the lowest rates in the EU). Of this only about 40% is public expenditure (this is expected to increase with the introduction of the GHS).

The significant weight of private expenditure (about 60%, among the highest in the EU) is an indication of a regressive system of funding.<sup>18</sup> Public health care covers about 70% of the population. However, the degree of satisfaction with the way public health facilities operate is rather low, and as consequence even those who are entitled to free care turn to the private sector. Private expenditure has persistently been high and consists largely in out-of-pocket payments.

Fast rising public expenditure on pharmaceuticals over the last couple of years is also a matter of serious concern (from about EUR 99 million in 2007 it is estimated to reach EUR 120 million in 2009). There is debate on whether fast rising expenditure ensues from legislation that more or less supports oligopoly conditions in the pharmaceuticals market, in the sense that only pharmaceutical products that have acquired a trading licence by the Pharmaceuticals Council can circulate in the market. Thus, there are cases where less expensive drugs (either brand name or generic) cannot be supplied because they have no trading licence; and/or suppliers who have got a trading licence, knowing that they have no competitor in the market, may overcharge for their products.<sup>19</sup> Surprisingly, there is not much debate on pharmaceuticals policy.

Entitlement rights to free health care reflect considerable inequalities: a sizeable part of the population (government employees) is entitled to free medical care (also families with more than four children enjoy free access independently of income, as well as people receiving social assistance).<sup>20</sup> The rest of the population has to pay charges that vary according to family income. Thus, households with incomes ranging at similar levels are characterised by different entitlements. Expansion of private health care further compounds inequalities.

Geographical access to public health services is not a major problem, given the small size of Cyprus. However, particularly private health facilities are mostly concentrated in urban centres.

Concerning waiting lists in public hospitals, solutions are sought by the Ministry of Health through the commissioning of service provision to the private sector as well as through increasing (paid) overtime work for hospital doctors and nursing personnel. Significant reductions have been recorded lately as result of these policies (e.g. in the

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<sup>18</sup> For an analysis of health expenditure see Pashardes et al. 2006.

<sup>19</sup> A characteristic example concerns the procurement of insulin products by the Pharmaceutical Services of the Ministry of Health in 2007. From the tenders made for this procurement, the Pharmaceutical Services of the Ministry selected an importing firm that offered the demanded quantity of drugs at the price of EUR 470,000, while a much cheaper offer (of EUR 229,000) by another enterprise was rejected on the grounds that the former firm had a trading licence in Cyprus, whereas the latter did not. This certainly places a heavy burden on public finances; the specific case was referred to the High Court and trial is pending (see Newspaper "Politis", 26 January 2009, accessed at <http://www.politis.com.cy/>).

<sup>20</sup> From 2008, according to a government decision, families with three children also have free access to health care.

cardiology clinic of the hospital in Nicosia, waiting times were reduced from 12 to 3-4 months, in the respective clinic of Limassol hospital the waiting list has been drastically reduced, while significant reductions took place in most surgical departments of hospitals).

The introduction of the GHS is expected to enhance comprehensive and equitable access. Nevertheless, the great delay in implementing the Law for a unified health care system creates serious doubts as to the feasibility of the plan. The more so, as the political stalemate in this policy field can be largely accounted for by the low pressure exercised on the government because of “relatively cheap private health care”; while in case of emergency or of complicated treatment, public coverage is available (Antoniadou, 2005, p. 1017). Furthermore, the burgeoning of private facilities (and in parallel the progressive expansion of private health insurance schemes for various groups - e.g. University staff) create clashing interests in respect of an overhaul of health care. To stress also that demographic conditions have so far not exerted a strong pressure on health expenditure, a condition that partly explains the low level of health expenditure in Cyprus.<sup>21</sup> Yet, health care needs are expected to increase with demographic ageing over the coming decades.

The very slow pace of the reform is evident from the fact that major priorities set for health care in the NSR 2006-2008 continue to be pertinent in the NSR 2008-2010. These priorities are significant prerequisites for the implementation of the GHS plan (see also Nuffield Institute for Health, 1998) and concern: (a) major changes in the organisation and management of the Ministry of Health, which, as repeatedly stressed by experts, is held to be fragmented and inappropriate in respect of the requirements of modern management systems”; and (b) radical changes in the structure and management of hospitals (so as to become independent units). Other policy priorities, such as a 10-year programme for the development of geriatric services at all levels of medical and social care, the enhancement of health promotion and the upgrading of education and training of healthcare personnel (in parallel with plans for the establishment of a medical school) are still placed high on the agenda, although with little progress so far.

### **2.2.1.1 Major developments**

The Health Insurance Organisation (HIO), established on the basis of the law enacted in 2001, has responsibility for the implementation of the GHS, which is planned as a unified system split into purchaser/provider, operating on the basis of common costing methods and quality assessment requirements. The HIO will manage the system finances and act as purchaser of health services.

The system will be funded by contributions. Hsiao and Jacab estimated the cost of the reform to about EUR 550 million, while revenues would amount to about EUR 600 million in the mid 2000s. On the basis of these calculations, the balancing of cost and revenue would make the plan sustainable.<sup>22</sup> Contributions were initially set at 9.1% of

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<sup>21</sup> Other reasons are the absence of a comprehensive national health system up to now, as well as the low level of resources devoted to medical research.

<sup>22</sup> Furthermore, Hsiao and Jacab stress that the reform plan “left key points ambivalent”, a condition that “might impair achieving the original intent of national health insurance”. Significant criticism has also been made by S. Playbell, the representative of the Sociological Association of Cyprus in the

salaries (2.55% paid by the employer, 2% by the employee and 4.55% by the state budget). Given the long time span since the introduction of the legal framework for the establishment of the GHS, assessments of the cost of the reform made by previous studies (for instance, Hsiao and Jakab, 2003) needed to be reconfigured. The updated budget by the Ministry of Health for the introduction of the GHS (in a time span from 2009 to 2011) - based mostly on estimates by a study on the long-term sustainability of the GHS (commissioned to a foreign firm)<sup>23</sup> - put the total cost at EUR 122.3 million (EUR 29 million in 2009, EUR 64.8 in 2010 and EUR 28.5 million in 2011). The budget comprises “a general cost” (e.g. transfer of public employees to new health units that will emerge out of the management and organisational change, consultancy services, etc.), and “a cost for the preparation of health care units to operate under the new system”. Furthermore, contribution rates need to be raised from 9.1% of salary to about 12-13%.

Given the time span since the passing of legislation for introducing the GHS, an amendment of the legal framework has been deemed necessary. An amendment scheme has been debated in the Parliamentary Health Committee since May 2008.<sup>24</sup> The bill put before parliament draws upon a joint report by the Ministries of Health and Finance, which assesses developments in respect of the Health Insurance Organisation and the progress in the overall schedule for the GHS’ implementation. Among the issues discussed are the rising cost of the system’s implementation, the introduction of co-payment<sup>25</sup> when patients visit specialists directly, instead of being referred by the general practitioner, as well as the extent of coverage of dental care under the GHS.

The system’s operation will be phased in (the new launch date is now set for the second half of 2011). Unified provision of primary health care will be the first step of the reform plan. This will be provided by GPs, outpatient departments, emergency and accident departments, as well as diagnostic centres. Inpatient hospital care will come into full operation after a period of 12 months after the launch of the GHS. A considerable time span is required, not only for putting into practice a unified system of cost-accounting for medical practice services, but also for accomplishing administrative reforms that will turn hospitals into independently managed units. The latter step is held to be essential in order to establish a system of unified service provision by both private and public suppliers on a competitive basis. However, great delays in implementing most of these basic reforms (including the development of adequate medical training programmes for GPs and other primary health medical personnel), creates serious concern about the reform’s prospects.

Surely, as is evident from the available joint progress reports, in order to meet the new time-tables, preparatory projects need to be strictly followed. In this respect, considerable preparatory work has been made by the HIO over the last couple of years: a plan for primary health organisation has been developed (the role and mode of payment of GPs and the system of referrals and qualitative criteria of service provision have extensively been examined in order to support the Ministry in its final decisions); a DRG-based (Diagnostic Related Groups) costing method for secondary and tertiary health care services, as well as global budgeting criteria are under consideration;

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Parliamentary Health Committee (see Newspaper “Simerini”, 28 July 2008, accessed at <http://www.sigmalive.com/>).

<sup>23</sup> Information about this actuarial study for the costing of the GHS’ implementation was obtained from the Health Insurance Organisation. The report submitted to the HIO (and the Ministry of Health) by the consultancy firm has so far not been publicly available.

<sup>24</sup> The previous government placed before parliament an amendment too (in late 2007), without success though.

<sup>25</sup> A 10% co-payment for pharmaceuticals was already included in the initial health reform plan.

solutions for the IT system and quality assurance issues are examined; and provisions are made for proceeding with the reorganisation of hospitals as independent public law organisations (Health Insurance Organisation, 2007). In 2008, in order to speed up preparatory projects, the Health Insurance Organisation signed two contracts with a foreign consultancy agency that will provide support in respect of hospital reorganisation and management as well as other consulting services.

However, hospital reorganisation and restructuring is largely under the responsibility of the Ministry, as is the reorganisation of the Ministry itself, which is a significant requirement for the efficient implementation of the GHS plan. Other major areas in which fast progress needs to be made are the effective networking of primary care providers and negotiations on compensation of health care service provision on the basis of the results of the actuarial study under preparation. Uncertainties that might affect set targets and deadlines have recurrently been mentioned by governmental authorities lately, in the light of the problems posed by the present economic and financial crisis.

### **2.2.2 Overview of debates and the political discourse**

Debate and political discourse focuses primarily on the delays so far in the implementation of the GHS and the prospects of the reform plan in the immediate future. The need for an amendment of the law for the introduction of the GHS is a major concern in political discourse. As stressed earlier, an amendment bill was placed before parliament by the previous government in late 2007. Parliamentary discussions, however, were discontinued due to the upcoming presidential elections in early 2008. A new amendment bill was resubmitted in May 2008 and is still under discussion.

Significant concerns about the prospects of the GHS have been expressed in the respective parliamentary committee by the social partners and representatives of relevant associations. For instance, the representative of the Sociological Association of Cyprus presented strong arguments about the weaknesses of the GHS plan and made suggestions for improvements. The Association holds that the gatekeeping system is anachronistic and impractical for Cypriot society, given the relative lack of GPs and that it may not deliver expected cost-containment results. It is highly probable that dissatisfaction will rise and people will soon turn to the private sector. A “more generous” system is suggested that might include two schemes: a basic, compulsory scheme and a second, optional scheme. The latter will provide additional services not covered by the basic compulsory scheme. It is also suggested that the compulsory scheme would be financed by contributions as a proportion of an individual’s income. Participation in the optional scheme will be on the basis of a flat (and comparatively low) contribution (reference was made to a similar system that was implemented with considerable success in Slovenia).

Major disagreements with the government’s proposals were also expressed by the president of the Medical Association of Cyprus. The Medical Association disagrees with the co-payment to be introduced for patients who contact a specialist directly. According to the Health Insurance Organisation the co-payment will be set at about 70% of the cost of the service provided. The Medical Association considers that such a “penalty”, if introduced, should be kept very low. It also expressed disagreement with the provision that requires for a GP to have a minimum of 300 registered patients in order to participate in the GHS; the Association demands for this provision to be abolished and strongly insists on free access to specialists.

Overall, heated debate in the Parliamentary Health Committee has brought to the fore major concerns by political parties and representatives of relevant bodies and associations about the feasibility of the reform plan, particularly given the protracted delay and the fast changing conditions since initial legislation was passed in the early 2000s. The pacing and breath of future developments very much depend on what amendments will be included in the bill still under discussion, how soon these will be approved and what the fiscal prospects will be in the immediate future.

### **2.2.3 Overview of impact assessment and Critical assessment of reforms, discussions and research carried out**

As stressed above, significant steps have been made by the HIO in the planning of major parameters (such as organisation of primary and secondary health care, costing methods, quality assessment criteria, etc.). But still substantial organisational changes (both in the structure of the Ministry of Health and the administration system of public hospitals) need to be accomplished for the GHS plan to be implemented. Thus, in terms of organisational modernisation, very little progress took place over the last year.

In terms of sustainability, debate centres primarily on the cost of the GHS' introduction and functioning and how this will be funded. In the meantime, however, private spending on health is increasing, as is also people's dissatisfaction with publicly provided services. Debate on issues of health technology assessment policy for containing cost is linked with the reform plan and has no effect on current practices. As mentioned above, Hsiao and Jacob's actuarial study estimated a balance (in the short and medium term) between the cost of the reform and the forecasted revenues for the GHS, if the reform were to be implemented by the mid 2000s. The same study also estimated that under the GHS health expenditure would double over a 7 to 8 years period due to comprehensive coverage and population ageing, as well as increasing importance of high technology health care services (see also Hanson et al., 2004). Undoubtedly, the cost of the reform increases as implementation is delayed. And obviously, any cost increase will lead to higher contribution rates, as stressed above.

As to adequacy of coverage, increasing private expenditure, in parallel with existing access regulations that allow a part of the population to have free access to public health care services (e.g. public sector employees), while the rest of the population is covered on the basis of income criteria, offers worrying signs of growing inequality. Furthermore, the low degree of satisfaction among the population with health care services is an indication of deficient quality (for an analysis of user satisfaction data in the early 2000s see Hsiao & Jacob, 2003).

The need for the introduction of an integrated system of quality control is acknowledged by the Ministry of Health. In the light of this quality assurance, committees are to be set up in all public hospitals and the measure is planned to expand to the private sector by 2010. However, no quantitative data has so far been publicly available.

On the basis of information obtained from the Ministry, a Quality Assurance Committee is being piloted in the General Hospital of Nikosia: it concerns the introduction of standards for hospital governance, clinical governance, health and safety issues, hospital infection control, incidence reporting and the enforcement of nursing standards (particularly related to the patient information system). The aim is to expand the measure to all hospitals in Cyprus so that in the near future all health units can get accreditation on the basis of standards set by the major international accreditation bodies in health care.



In addition, a “Charter of Citizen’s Rights regarding Health Care in Public Medical Institutions” – drawing upon the Government Medical Institutions and Services (General) Regulations – was recently prepared. This is in line with the enforcement of the act on patients’ rights (introduced in 2005).

Overall, however, introducing a unified health care system and ensuring equitable access to quality services remain major challenges.

## **2.3 Long-term care**

### **2.3.1 Overview of the system’s characteristics and reforms**

Official planning documents (e.g. NRS 2008-2010) stress the growing needs for long term care provision due to population ageing, as well as the high incidence of poverty among the elderly. Institutional and home care is provided by public, voluntary and private agencies (provision by the latter two categories of agencies is subsidised by the state –through the Grants-in-Aid Scheme) to citizens with insufficient incomes to meet their basic and special needs.<sup>26</sup> Among the main priorities for the immediate future are the promotion of the deinstitutionalisation strategy, quality improvement and human resource development.

With regard to health care, geographical access of social services is not a particularly accentuated problem in Cyprus given the fact that distances are comparatively small between urban and rural areas. However, further improvement of access is planned. Currently, there are six district offices of the Social Welfare Services. Decentralisation of their activities to local units closer to beneficiaries is under way. In Larnaca two such units will start operating soon, as well as a special unit offering counselling services. In Limassol and Nikosia four such units are planned, respectively, as well as a unit specialising in adoption, family counselling and youth delinquency problems. Other initiatives by the Social Welfare Services consist in: a networking process of local providers of care services to children, the elderly and the disabled (which is under way); support to Local Authorities in order to develop local initiatives; and the development of telecare provision and other similar measures.

Roughly about 26,000 families get support (in cash or in kind) by the district offices and local units of Social Welfare Services: 23,000 of those families are recipients of social assistance benefit and 1,400 families receive care and/or preventive support services, while there are also a number of cases concerning adoption, parental support, and child custody.

For elderly care, however, the family and particularly women have traditionally been the main providers. To the extent that the statutory care developed is addressed to the most deprived. It falls short of meeting the existing needs, which are largely covered privately through foreign carers. Understaffing of Social Welfare Services and/or employment on a term contract basis often create serious problems of discontinuity in the client-carer relationship.

In an interview to the Newspaper “Politis” (2 February 2009)<sup>27</sup>, the Head of the Social Welfare Services indicated that there are 2,500 migrant women caring for elderly people who are recipients of social assistance benefits (an extra benefit is provided for the

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<sup>26</sup> For a detailed examination of social care and social assistance provisions in Cyprus in the early 2000s see Amitsis & Marini 2003.

<sup>27</sup> Accessed at <http://www.politis.com.cy/>.

coverage of care needs of this group of elderly people).<sup>28</sup> However, care provision under this arrangement is hardly monitored as to its adequacy and quality. A research on long-term care needs is planned to be commissioned by the Social Welfare Services and its results will be useful in throwing light on all these issues.

### **2.3.2 Overview of debates and the political discourse**

Long-term care is not a prevalent issue in public debate (and political discourse), even though family changes and demographic ageing contribute to fast increasing need. Changes in family patterns due to women's increasing employment is a major issue in respect of elderly care, which has traditionally been a service provided within the household. Also, in the case of Cyprus, forced population movement in the mid 1970s, and later in that decade, highly disrupted family and kin networks as well as traditional local community support networks. As a result, care problems intensified in tandem with poverty problems among old-aged population.

### **2.3.3 Impact assessment and Critical assessment of reforms, discussion and research carried out**

Financial sustainability of long-term care should be ensured through a better targeting of services (and resources) to those most in need, and more efficient criteria of financial contribution by the persons receiving care according to their income level. Given the fact that there is no comprehensive coverage of the long-term care needs of the population through, for instance, a mandatory social insurance scheme, provision of services by public institutions and/or state subsidised private or voluntary suppliers is addressed primarily to citizens with insufficient resources for whom other measures of public assistance apply too. In this respect, as is also indicated in the NSR 2008-2010, sustainability can be enhanced through effective targeting in parallel with monitoring and control of voluntary bodies, Local Authorities and private institutions co-financed by the Social Welfare Service of the Ministry of Labour and Social Insurance.

Encouraging and supporting families to provide care is an alternative strategy, which is considered as a means of enhancing sustainability. However, the "burden" on women that this implies should be taken into account, particularly when caring responsibilities create obstacles to employment. In view of the deteriorating demographic conditions in the following decades, sustainability issues need to be based on a more sound basis, requiring a systematic assessment (including an actuarial study) of future needs, costs and resources.

Concerning quality issues, no specific policies have so far been developed. A new legal framework is being prepared which will define standards for the operation of home-care provision by voluntary and private bodies. Furthermore, as stated in the NSR 2008-2010, there was a decline in the number of persons to which home care was provided by the Social Welfare Services between 2005 and 2007. This is mainly due to the decline in the number of available carers. What is more, the "carers"/"persons served" ratio deteriorated: in 2005 there was a ratio of one carer to one person served, while in 2007 one carer served two persons (Ministry of Labour and Social Insurance, 2008, p. 90), a condition that runs counter to the improvement of the quality of care.

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<sup>28</sup> Overall, there are about 25,000 legal migrants in Cyprus, mostly women from Sri Lanka and the Philippines, working as home helps (they amount to 26% of the total number of legal migrants in Cyprus). There are no estimates of illegal women migrants working as domestic helps.

In this respect, in parallel with accreditation and inspection policies pursued by the Ministry for ensuring prescribed standards of care by voluntary and private providers (either in residential units or open care schemes), the development and strengthening of human resources is a major challenge ahead. Pilot training programmes (of a “quick-win” type) for nursing care at home (e.g. general nursing and mental health nursing), currently implemented by the Ministry, are a step in the right direction but more efforts need to be made for human resource development in the future.

To conclude, measures of decentralising provision of social services will improve access in geographical terms. However, major challenges concern the systematic assessment of future needs (and required human and financial resources) as well as the effective reconfiguration of social care provision in relationship to social assistance measures (better targeting of provisions to those in need, coordination between different providers for a comprehensive coverage of needs). Issues such as the extent of informal care, the burden on carers and how to ensure an adequate range of support services to them, have not been systematically dealt with by the relevant authorities. These matters are of crucial importance and need to be considered in close relationship with changing trends in family patterns (increasing participation of women in the labour force and a comparatively high rate of divorce in Cyprus), which have seriously limited the capacity of the family to be the main provider of social protection (as has traditionally been the case in Southern European societies).

By and large, research on issues concerning poverty among the elderly and the redistributive effects of pensions and social benefits, socio-economic inequalities in health (in terms of access and outcome), cost-effectiveness, quality of services and health technology assessment, as well as on existing and future needs for long-term care is scarce. Non-existent is also research on social care needs for different groups of disabled and elderly frail people and the efficiency and quality of existing social services.

The absence of a University in Cyprus until the early 1990s largely accounts for the lack of research institutes and relevant studies on social protection and welfare service provision. In the fields of pensions and health care, available studies focus primarily on macroeconomic aspects and actuarial valuations; such studies are commissioned by the government to international organisations (e.g. ILO, IMF) or to private consultancy agencies. There is scant information in the field of social care (and social welfare services). A study on dependency of welfare clients on benefits and services, commissioned by the Ministry of Labour and Social Insurance to a private institute in the early 2000s (Amitsis & Marini, 2003) offers an overview of social security benefits from a legal-institutional perspective, while significant dimensions of social security evaluation (in terms of redistributive effects, administrative efficiency, cost-effectiveness etc.) are lacking.

Evidently, there is a need for promoting research that is crucial for social reform. A close monitoring of the redistributive effect of pension (and social assistance) benefits in order to tackle major inequalities and poverty among the elderly and improve targeting, constitutes a major area to which research should focus. Equally needed is research on health inequalities (particularly as privatisation is expanding, while the introduction of the GHS has persistently been delayed) and issues of cost-effectiveness and resource allocation. Particularly wanting is information on long-term care needs and, thus, research on this issue as well as on expanding (informal) privatisation of care provision (to disabled and elderly people), the quality of services offered in the statutory and private sector, future policy scenarios and related financing, organisation and delivery issues is also of utmost importance.

### **3 Impact of the Financial and Economic Crisis on Social Protection**

In Cyprus the deceleration of GDP growth rate has been slower than in other EU countries (in the first quarter of 2008, the growth rate stood at 4.1% but slowed down to 3.5% in the last quarter). Forecasts for 2009 vary. Six months ago the government expected growth to reach 3% in 2009. However, in early 2009, the Governor of the Central Bank of Cyprus forecasted a 2% growth, while the EU sets the expected growth rate much lower (at about 1%). The sectors that have mostly suffered from the crisis so far are the construction and tourist industries, financial intermediation and real estate activities. A serious impact on the tourist industry still lies ahead, however, as are the knock-on effects of the crisis on other socio-professional categories and on household consumption.

According to the latest Labour Force Survey for the fourth quarter of 2008, activity rates for both men and women remained comparatively high in Cyprus: 79.2% for men and 63.2% for women. The unemployment rate stood at 3.7% in 2008 (as against 3.9% in 2007), while the unemployment rate for young persons aged 15-24 fell significantly (from 10.2% in 2007 to 9.0% in 2008). In March 2009, the number of unemployed reached 16,806 exhibiting an increase by 4,602 persons in comparison to March 2008. Also, according to the Statistical Service of Cyprus, the number of long term unemployed grew by 138% between March 2008 and March 2009. Depending upon the extent of deceleration in GDP growth, unemployment is forecasted to rise to about 6% throughout 2009 (according to the Human Resource Development Authority of Cyprus, if GDP growth falls to 2%, it is highly likely that unemployment will reach 6% in 2009; governmental forecasts for unemployment are less pessimistic, as is the prediction by the European Commission).

The policy measures taken so far aim at coordinating economic development, social cohesion and macroeconomic stability. Both the 2009 Budget (approved by Parliament in late 2008) and the two packages of special support measures for the economy (approved by the governmental cabinet in December 2008 and late January 2009, see for example the Strategic Action Plan for coping with the crisis) comprise measures, such as boosting demand, creating jobs through public work investments and public-private partnerships (expansion of social welfare and public utilities infrastructure including construction and repair of schools), supporting the tourist sector (reduction of airport landing surcharges, coverage of local authority charges on hotels by the state budget, decrease of VAT rates on accommodation for hotels and social tourism policies). In parallel, the above Strategic Action Plan (a rescue plan of EUR 300 million, in addition to an initial plan of EUR 50 million) provides a package of measures for employment promotion and labour market integration of vulnerable groups. These measures aim at improving the effectiveness of Public Employment Services, adjusting regulations and policies for foreign workers to the crisis conditions (introducing stricter rules for the inflow of foreign workers and actively attracting into the labour market economically inactive women and unemployed persons), intensifying the campaign for combating illegal employment, and implementing vocational schemes for the unemployed and underemployed persons in industries facing serious problems (a special plan for such measures is currently being drafted by the Human Resource Development Authority).

Moreover, social cohesion measures are integrated into the 2009 Budget. Planned measures include, amongst others, an increase of special social allowances by 10%, support packages for students from low-income families and for large families with

more than four children, a social housing policy implemented by the Cyprus Land Development Corporation, as well as a substantial increase of resources for low interest-rate housing and social loans provided by the Housing Finance Corporation to low income families, first-time home buyers and other vulnerable groups (young couples with low to medium income, low-income single-parent families, large families as above, families in depressed rural and urban areas and persons displaced during the 1974 Turkish invasion). The state housing plan is expected to have multiple beneficial effects on the economy and employment (boosting particularly the construction sector). These measures, however, may adversely affect the fiscal deficit (nevertheless, forecasts by the European Commission indicate a comparatively low public deficit for Cyprus in 2009, about 0.6% of GDP, to increase to 1% in 2010).

Other special measures include the provision of a one-off bonus to all pensioners under the General Social Insurance Scheme and Social Pension recipients at Easter 2009 (roughly about 110,000 pensions). This measure was applied in 2008 as well. According to legal provisions of social insurance, in January 2009 basic pensions increased by 4.49% and supplementary pensions by 4.50% (the increases comprise also the adjustment of pensions to the cost-of-living index, which took place in July 2008).

Demands are also made to the Ministry of Labour by the trade unions to increase the duration of unemployment benefit from six to twelve (or even eighteen) months. During the first six months the unemployment benefit will be 50% of the last wage/salary (as has been the case up to now); while afterwards the benefit could amount to “basic subsistence benefit” set at about EUR 500. However, any extension of the duration should be accompanied by a revision of eligibility rules that allow misuse of the benefits.

The economic downturn may postpone the implementation of the National Health Scheme. According to a recent actuarial study conducted by a private consultancy agency (see note 23), the cost of further implementation of the National Health Scheme will necessitate a significant increase of contributions by employers & employees (see above).

As indicated earlier, the bill for the overhaul of the General Social Insurance Scheme (GSIS), recently passed by Parliament, which was the outcome of protracted dialogue between the government, the social partners and political parties, aims to improve long-term fiscal sustainability of the scheme. Even though this is not an extraordinary measure for tackling the immediate effects of the crisis, it should be mentioned here, because the changes introduced by new legislation are expected to significantly improve funding conditions and promote equity and effectiveness in the operation of the fund. New legislation also makes provision for a substantial increase of the GSIS’ reserves<sup>29</sup>, as the state is committed to put in EUR 200 million each year for the next five years. Regarding the provident funds’ assets, there is no available information as to the extent of the damage incurred due to the fall in assets value. In the case of the two most prominent pension funds - the fund for the employees of the Cyprus Telecommunications Authority and that for the employees in the Electric Authority of Cyprus<sup>30</sup> - the damage caused by the credit crunch seems to be marginal given the fact that only a tiny part of their assets was invested in bank bonds that lost about 85% of their value over the last year (EUR 15 million out of about EUR 500 million), while the largest part of their assets were invested in government bonds.

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<sup>29</sup> These are almost depleted due to a high debt of the state to the GSIS (amounting to about EUR 6.5 million; see Newspaper “Simerini”, 8 March 2009, accessed at <http://www.sigmalive.com/>).

<sup>30</sup> Including their provident fund branches.

Finally, as mentioned in section 2 above, on the basis of the recommendations of an expert group, in April 2009 the government approved a “Scheme for the Support of Low-Income Pensioners” to be implemented from October 2009. This is a targeted benefit scheme that will provide a monthly increase of low pensions ranging from 9% to 16% on the basis of means-testing. This measure, however, aims to address a more profound problem of a high poverty incidence among the elderly in Cyprus rather than being solely a response to the impact of the current crisis.

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## 4 Abstracts of Relevant Publications on Social Protection

### [R] Pensions

[R1] General trends: demographic and financial forecasts

[R2] General organisation: pillars, financing, calculation methods or pension formula

[R3] Retirement age: legal age, early retirement, etc.

[R4] Older workers activity: active measures on labour market, unemployment benefit policies, etc.

[R5] Income and income conditions for senior workers and retired people: level of pensions, accumulation of pensions with earnings from work, etc.

[R1] CATALAN, M., GUAJARO, J. and HOFFMAISTER, A. W., “Global Aging and Declining World Interest Rates: Macroeconomic Insurance through Pension Reform in Cyprus”, IMF Working Paper, WP/08/98, 2008.

*The authors address the question of “how will the worldwide decline in real interest rates associated with global ageing affect small open economies (SOEs) with ageing populations?”. The main argument they develop is the following: lower interest rates will bring about a higher capital-labour ratio and higher wages; wage increases in turn will influence pension benefits, creating strong fiscal pressures. Wage increases will impact upon pension benefits, particularly in cases where pensions are indexed to earnings rather than prices. In the case of Cyprus, on the basis of “an overlapping generations model”, the paper traces the interest rates transmission mechanism and its impact on pension indexation. The authors conclude with the suggestion for a reform that will change the base of indexing pensions from wages to prices. This can provide “substantial macro-insurance and shock absorption benefits” for the Cypriot economy.*

[R1] IMPAVIDO, G., O’CONNOR, R. and VITTAS, D., “Improving the investment performance of public pension funds: Lessons for the Social Insurance Fund of Cyprus from the experience of four OECD Countries”, Cyprus Economic Policy Review, 2/2, 2008.

*The paper examines investment performance of public pension funds in four OECD countries and attempts to draw lessons for the case of Cyprus. Often, poor investment performance by public pension funds is attributed to “a weak governance structure, lack of independence from government interference, and a low level of transparency and public accountability”. The analysis focuses on attempts at modernising organisational and management structures in selected OECD countries (Norway, Canada, Ireland and New Zealand) with the aim to pursue better investment opportunities. Issues that are discussed are: the safeguards introduced by these countries to ensure the funds’ independence and insulation from political pressures, the investment strategies pursued so far and ensuing performance results. The paper concludes with suggestions for a more efficient management of the reserves of the Social Insurance Fund of Cyprus with the aim to achieve higher investment return on the reserves.*

[R4] PASHARDES, P. and POLYCARPOU, A., “Income tax evasion, inequality and poverty”, Cyprus Economic Policy Review, 2/2, 2009.

*A method based on consumer demand is used in order to estimate “the extent to which households in Cyprus under-report their income from self-employment, capital income and income from agriculture”. These estimates offer a basis for calculating the size of black economy. This appears to amount to about 7–8% of*

*GDP. The authors stress that income underreporting produces a significant downward bias in measures of inequality and poverty. In the light of this they suggest that antipoverty policies should become more generous, although at the same time targeting measures should be implemented so that policies can be more effective.*

[H] Health

[H1] Health expenditures: financing, macroeconomic impact, forecasting, etc.

[H2] Public health policies, anti-addiction measures, prevention, etc.

[H3] Health inequalities and access to health care: public insurance coverage, spatial inequalities, etc.

[H4] Governance of the health system: institutional reforms, transfer to local authorities, etc.

[H5] Management of the health system: HMO, payments system (capitation, reimbursement, etc.)

[H6] Regulation of the pharmaceutical market

[H7] Handicap

[H] THEODOROU, M., in collaboration with PAVLAKIS, C. and PETROU, C., «Αποτύπωση των Συνταγογραφικών Συνηθειών των Γιατρών στην Κύπρο» (research project funded by the Ministry of Health and the Open University), 2008.

“Prescribing patterns of medical doctors in Cyprus.”

*The research examines the profiles of medical doctors in Cyprus and their prescribing patterns. The findings indicate that private doctors consult sources in the internet as well as in medical libraries less often than doctors in the public sector. On the other hand, private doctors rely more on information provided by pharmaceutical representatives. For both private and public sector doctors included in the sample, prescribing decisions are based mostly on data provided in medical conferences (about 65% of doctors mentioned this source), on information by pharmaceutical representatives (61%), on information by medical journals (59%) and reference books (44%). Other findings show that 6 out of 10 doctors take into account cost issues and particularly whether the drug to be prescribed is covered by the patient’s social insurance. Also, generics seem to be approved by a number of doctors.*

[L] Long-term care

[L] Interview by the Director of the Social Welfare Services Ms. Toula KOULOUMOU to the Newspaper Politis [«Πολίτης»], 2 February 2009. Retrieved from: <http://www.politis.com.cy/> .

*The interview focuses on fast increasing social needs in the Cypriot society since the early 1990s due to demographic ageing, changes in family patterns and gender roles. It highlights the difficulties faced by the existing social welfare services in responding to needs because of shortage of resources and understaffing. It also discusses recent decentralisation policies of social welfare services in an attempt to improve access and coordination of service provision at local level.*

## 5 List of Important Institutions

### **Κέντρο Οικονομικών Ερευνών, Πανεπιστήμιο Κύπρου – Economics Research Centre, University of Cyprus**

Contact person: Panos Pashardes  
Address: PO Box 20537, Nicosia, Cyprus  
Webpage: <http://www.erc.ucy.ac.cy/>

*The Cyprus Economics Research Centre is an independent non-profit research institution linked with the Department of Economics of the University of Cyprus. It undertakes research in economics with a main emphasis on the Cyprus economy within the EU and the international setting. Macroeconomic policy issues including income distribution, inequality and poverty, as well as the structure and financing of social insurance are among the research interests of the Centre.*

*Recurrent publication of the Centre: The Cyprus Economic Policy Review (published bi-annually).*

### **Ινστιτούτο Εργασίας Κύπρου (INEK-ΠΕΟ) – The Cyprus Labour Institute (an Institute operating under the auspices of the Pancyprrian Federation of Labour – PEO)**

Contact person: Pampis Kyritsis  
Address: 14, Simonidou (building ETKA/PEO, 2nd floor), 1045 Nicosia, Cyprus  
Webpage: <http://www.inek.org.cy/english/>

*A non-profit organisation established in the early 2000s by the Pancyprrian Federation of Labour (PEO) with the aim to provide documentation to the unions, promote relevant research for an evidence-based intervention of the PEO and its trade unions members to policy areas that are of crucial interest to the trade union movement. It also promotes education and training on trade union issues and organises workshops and conferences. It publishes working papers and studies (e.g. on living conditions, wages, etc.). In 2008, it published a first (periodical) report on the Cypriot Economy and Labour Market. However, so far its research activities and publications have been limited.*

### **Cyprus International Institute for the Environment and Public Health**

Contact person: John Evans  
Address: 5, Iroon Street, 1105 Nicosia, Cyprus,  
Mailing address: P O Box 24440, 1703 Nicosia, Cyprus  
Webpage: <http://www.hsph.harvard.edu/cyprus/>

*The government of Cyprus, in collaboration with the Harvard School of Public Health (HSPH), has established the Cyprus International Institute (CII) for the Environment and Public Health, located in Nicosia, with the aim to develop research and education on key environmental and health issues in Cyprus and the Mediterranean region (e.g. population risks associated with environmental factors) in order to provide evidence for environmental health policies.*

### **Το Υπουργείο Εργασίας και Κοινωνικών Ασφαλίσεων - The Ministry of Labor and Social Security**

Address: Byron Avenue 7, 1463 Lefkosia, Cyprus  
Webpage: <http://www.mlsi.gov.cy>

*The Ministry of Labour and Social Insurance is the main state agency for labour and social policy and its functions cover social protection, employment, industrial training,*

*labour relations, terms and conditions of employment and safety and health at the work place.*

**Το Υπουργείο Υγείας – The Ministry of Health**

Phone: + 357 22 605601

Fax: + 357 22 434451

E-Mail: [an.agrotou@cytanet.com.cy](mailto:an.agrotou@cytanet.com.cy)

Webpage: [http://www.moh.gov.cy/moh/moh.nsf/index\\_en/index\\_en](http://www.moh.gov.cy/moh/moh.nsf/index_en/index_en)

*The Mission of the Ministry of Health is the continuous improvement of the health of the population of Cyprus, through the prevention of disease, and the provision to every citizen of high level health care, respecting the rights of every patient to high quality medical care delivered with dignity. The main features of this strategy are the emphasis on the prevalence and incidence of diseases and mortality data, the provision of equal opportunities for health care to all citizens, irrespective of their socio-economic status and place of residence, the promotion to the greatest possible degree of co-operation between the public health services and the private health sector and the improvement of effectiveness and efficiency of the public health services.*

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These are:

- (1) to improve the knowledge and understanding of the situation prevailing in the Member States (and in other participating countries) through analysis, evaluation and close monitoring of policies;
- (2) to support the development of statistical tools and methods and common indicators, where appropriate broken down by gender and age group, in the areas covered by the programme;
- (3) to support and monitor the implementation of Community law, where applicable, and policy objectives in the Member States, and assess their effectiveness and impact;
- (4) to promote networking, mutual learning, identification and dissemination of good practice and innovative approaches at EU level;
- (5) to enhance the awareness of the stakeholders and the general public about the EU policies and objectives pursued under each of the policy sections;
- (6) to boost the capacity of key EU networks to promote, support and further develop EU policies and objectives, where applicable.

For more information see:

[http://ec.europa.eu/employment\\_social/progress/index\\_en.html](http://ec.europa.eu/employment_social/progress/index_en.html)